

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAE 2014 – SEMINAR IN ANALYTICAL ECONOMICS

06 MARCH 2017

2.30 p.m – 4.30 p.m

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question One (30 marks)

Answer the following questions based on Passage 1.

Passage 1

Singapore, a small and open economy, currently ranks number four, after Hong Kong, as a global financial center. Although the economy recovered from the 1985 recession, fear of renewed inflation has prompted the Monetary Authority of Singapore (MAS) to allow the Singapore dollar to appreciate and to fluctuate within a zero-appreciation exchange rate band. The exchange rate-centered monetary policy adopted by the MAS since the mid-1980s is based on the assumption that money adjusts passively to real economic activities in an open economy. Accordingly, the money supply has little, if any, independent influence on domestic economic activity. Apart from the importance of the exchange rate in an economy that is highly dependent on international trade, the adoption of exchange rate targeting by the MAS also reflects concern that the demand for money was becoming more unstable as deregulation in the financial markets accelerated in the 1980s (Dekle and Pradhan 1997).

The notion that rising asset prices have boosted consumer spending has received much support in industrialized countries. Focusing on Singapore, the housing price index increased significantly from 1978 to 1996 before falling at the end of 1998. Thus, given the sharp movements in the equity and housing markets in the past few decades, it is conceivable that movements in these asset prices could affect the demand for money. To the best of our knowledge, the impact of asset price inflation on the money demand function (MDF) in Singapore has not been systematically examined empirically, which has motivated us to conduct this study.

The main purpose of this study is to determine the extent to which changes in the asset market have affected money demand behavior. We also examine how the recent bursting of the new-economy bubble affected monetary aggregates as individuals shift their portfolio from risky to less risky (safer) assets. Specifically, this study is designed to answer two questions: (1) Does wealth matter in the demand for money?; and (2) Have asset price bubbles and the recent global financial crisis affected the stability of Singapore's MDF? We attempt to show whether a stable long-run relationship exists between monetary aggregates and related variables. In the empirical analysis, special emphasis is placed on addressing the issue of stability and wealth effects. The stability on the MDF is an important issue, in particular for drawing a conclusion that monetary policy has a predictable influence on the real economy (Poole 1970). If the demand for money turns out to be unpredictable, then the transmission mechanism of monetary policy becomes more complicated and the central bank will face difficulty in controlling the money supply and, hence, the level of inflation (Bahmani-Oskooee and Rehman 2005 and several of the articles cited therein).

Extracted from the original work of Baharumshah, A.Z. and Soon, S.-V. (2015) Demand for Broad Money in Singapore: Does Wealth Matter? Journal of Economics and Finance, 39(3), 557-573.

Continued...

Based on Passage 1, answer the following questions.

- (a) Based on Passage 1, write the problem statement for the topic. (10 marks)
- (b) Explain the theoretical framework used in the study. (5 marks)
- (c) State the research objective that is most likely to be studied by the authors. (5 marks)
- (d) Suggest suitable methodology that could be used to solve the research problem mentioned in question (a). (10 marks)

Question Two (20 marks)

- (a) What is research? (4 marks)
- (b) Explain with an example the difference between applied research and basic research. (6 marks)
- (c) Academicians who wish to publish their research have to follow a systematic analytical path. Discuss the steps involved in an econometric analysis of economic models. (10 marks)

Question Three (25 marks)

You are a final year Bachelor of Analytical Economics student and have to answer a question in a final exam paper on the currency situation of ringgit Malaysia.

- (a) In November 2016, ringgit falls to lowest level in over a decade. What are the factors depreciating our currency? (10 marks)
- (b) Discuss how you are going to analyze the current impact of ringgit on the economy of Malaysia. Are you going to use cross-sectional, time series or panel data to study this issue? Explain your answer. (10 marks)
- (c) What are the possible findings that you may obtain and what are their policy implication? (5 marks)

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Question Four (25 marks)**Passage 2**

KUALA LUMPUR, March 17 — The Ministry of Finance (MOF) disclosed today that the sovereign debt level is at a staggering RM630.5 billion, which stands at 54.5 per cent of Gross Domestic Product (GDP) and very close to the government's self-imposed 55 per cent limit.

"The Federal Government's latest debt amount for the year ending December 31 2015 is RM630.5 billion, or 54.5 per cent of the GDP.

"Of this amount, 96.6 per cent or RM609.1 billion is domestic debt, while RM21.5 billion or 3.4 per cent is offshore debt," the ministry said in its written reply to Parliament.

However, the MOF said the debt is still manageable.

"The government is committed to ensure that the Federal Government's debts do not exceed 55 per cent of the GDP.

"To ensure the Federal Government's debt limit remains low and managed, fiscal consolidation plans will be continuously executed to reduce the deficit level in phases," it said.

Source: <http://www.themalaymailonline.com/malaysia/article/at-rm630b-malaysias-debt-nearly-hitting-ceiling>

Assume that a researcher—Mikey conducted a research for the case of Malaysia. His research entitled "*The Impact of Total Debt on the Economic Growth*".

- (a) Based on the Passage 2, write a problem statement for the topic mentioned above. (20 marks)
- (b) What are the data used to proxy your variables? (5 marks)

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